

The Weekly Beacon

We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.

*The two main purposes of a Lighthouse are **to serve as a navigational aid and to warn ships (Investors) of dangerous areas.** It is like a traffic sign on the sea.*

In honour of the Chiefs and Eagles playing in the Super Bowl on Sunday. A lighthouse from Philadelphia and one from Kansas.



Landlocked Lighthouse, Salina, Kansas



Turtle Rock Light, Philadelphia, Pennsylvania

Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.



The return of the meme

It appears retail investors are not doing as poorly as some thought. Bed Bath & Beyond shares surged over a 5-day trading period ending February 6th.

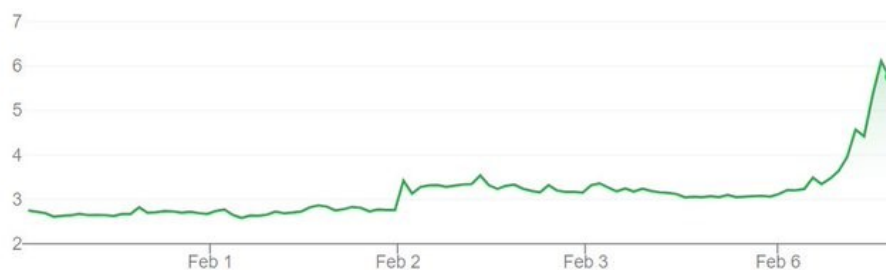
Market Summary > Bed Bath & Beyond Inc

5.74 USD

+2.99 (108.73%) ↑ past 5 days

Feb 6, 3:47 PM EST • Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



We mention retail traders because this has been one of their favorites since Covid-19 began. Bed Bath & Beyond was heavily shorted by hedge funds drawing interest from retail investors. The stock surging this past week has nothing to do with earnings, forecasts, revenue, or even a buyout. It's complete retail insanity. We like retail participation and think it's important all consumers invest and save for their future but jumping into a stock with no research or as a joke is extremely dangerous, we would argue it could be safer to gamble on the Super Bowl.

Just a month after Bed Bath & Beyond announced it was running out of money, the stock doubles, and it appears easy money is circulating in the stock market yet again. (There was no major announcement that led to the stock surging like a restructuring plan).

RETAIL

Bed Bath & Beyond shares plummet after company warns of potential bankruptcy

PUBLISHED THU, JAN 5 2023-8:26 AM EST | UPDATED THU, JAN 5 2023-6:25 PM EST

Over the past 6-8 weeks some of the most overvalued names have surged off their bottoms as investors speculate the bear market is over and that the FED will pivot to cut interest rates. Before you jump into those garbage SPACs and ARKK holdings we encourage our readers to look at valuations and not simply

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invest based on current price versus all-time high price, it is a losing strategy. Getting back to Bed Bath & Beyond.....



Just two weeks ago it announced that it was going to default on its debt.

RETAIL

Bed Bath & Beyond defaults on credit line, warns it can't pay down debts

PUBLISHED THU, JAN 26 2023 3:04 PM EST | UPDATED FRI, JAN 27 2023 9:44 AM EST

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Just a few weeks later the stock had doubled in a matter of days. However, after that major surge on February 6th, Bed Bath & Beyond announced a \$1 Billion capital raise through a stock sale, and their stock price plummeted. The issuance is a combination of stock and warrants attached to the stocks.

Investors did not like this announced dilution and sold out almost immediately. Before investors could blink, shares were down 40%+ to open on February 7th. This is the downside of investing in garbage and meme stocks. Investors may have bought in on February 6th near the close due to the stock surging assuming it would continue in the morning only to wake up and watch 40% of their money was gone. We think Bed Bath & Beyond will either be bought out or sold off in a bankruptcy sale. We think any investors who own shares should sell off immediately and contact a financial advisor. However, due to the YOLO nature of retail investors, we can not confidently say that Bed Bath & Beyond shares will never return to their highs because some of these investors are completely irrational and operate differently. For now, we will continue to follow along from the sidelines.

Market Summary > Bed Bath & Beyond Inc

3.36 USD

+1.06 (45.67%) ↑ year to date

Feb 7, 10:00 a.m. EST • Disclaimer

+ Follow

1D | 5D | 1M | 6M | **YTD** | 1Y | 5Y | Max



Open	3.10	Mkt cap	408.09M	52-wk high	30.06
High	3.74	P/E ratio	-	52-wk low	1.27
Low	3.07	Div yield	-		

Even with Tuesdays' drop of 40%, BBY shares are up 45% YTD, but shares are down close to 90% from their 52-week highs.

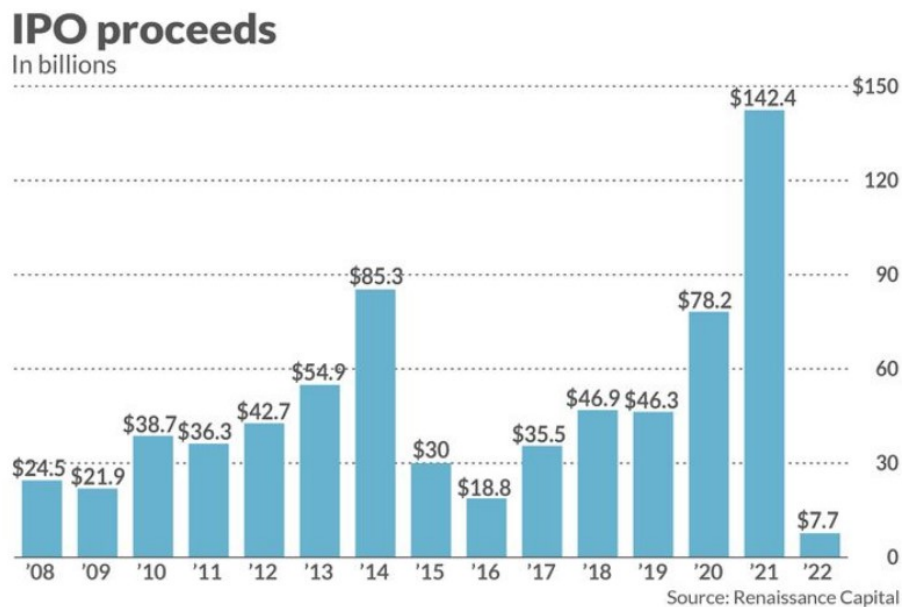
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The popular consumer retailer has gone from a Fortune 500 company to a bankrupt punchline in a matter of years.



Deal market stalls

2022 was a historic year for investment banks. A historic year for all the wrong reasons. IPOs and M&A activity both hit multi-year lows. Investment banks collect large fees when advising a company that is going public or advising on a deal between two companies (acquiring and target).



2021 was a record year for IPOs, with the mass adoption of SPACs, easy money, and retail participation, companies sprinted to go public (even if they were not ready).

There were just 71 traditional IPOs or direct listings in 2022 that had market capitalizations of at least \$50 million, compared to 397 occurrences in 2021, according to Renaissance Capital. The decline in IPO proceeds was even larger in 2022. Proceeds fell by 95% from 2021. IPOs also raised the lowest amount in more than 30 years. Many market analysts believe the slowdown in the IPO market will continue in early 2023 as companies do not want to go public at lower valuations and want certainty when they choose to go public. Right now there are lots of uncertainties for companies especially ones that are capillary intensive. We would assume many private companies are also considering remaining public due to the SPAC mess of 2021, where companies that were not ready for public markets essentially tanked and wiped-out billions of dollars in value. Some technology-based companies that remain private may need to acknowledge that they need to reduce their valuation expectations going forward. Investors are now in the driver's seat and are not willing to pay as much for unprofitable technology stocks that are early in the J Curve*.

<https://www.investopedia.com/terms/j/j-curve-effect.asp>



The Renaissance IPO ETF declined more than 50% in 2022, significantly underperforming other major asset classes.

The Renaissance IPO ETF seeks to provide investors with the largest, most liquid US-listed newly public company stocks in one security, reducing the risk of single-stock ownership while avoiding overlap with major core indices for optimal diversification across markets and time. The ETF launched in 2013 and currently holds:

Holding #	Holding Name	Asset Class	Ticker	Sedol	Shares	Holding Value	Weight
1	Airbnb	Equity	ABNB	BMGYH4	136,183	\$16,117,258	10.78%
2	Snowflake	Equity	SNOW	BN134B7	93,573	\$14,791,084	9.89%
3	Coupang	Equity	CPNG	BNYHDF3	364,504	\$6,017,961	4.03%
4	Palantir Technologies	Equity	PLTR	BN78DQ4	666,626	\$5,539,662	3.71%
5	DoorDash	Equity	DASH	BN13P03	90,567	\$5,405,039	3.62%
6	Royalty Pharma	Equity	RPRX	BMVP7Y0	134,811	\$5,159,217	3.45%
7	Roblox	Equity	RBLX	BMWBC20	131,531	\$5,128,394	3.43%
8	Li Auto	Equity	LI	BMXHCD8	190,379	\$4,763,283	3.19%
9	Coinbase Global	Equity	COIN	BMC9P69	57,763	\$4,308,542	2.88%
10	KE Holdings	Equity	BEKE	BMBX7M2	232,170	\$4,234,781	2.83%

This is a static strategy of owning the largest IPOs in the U.S. and that market has dried up so it's no surprise that this fund has significantly underperformed major indices (the strategy does not allow for diversification to improve performance). This fund is different than funds like ARKK as Ark Investments have clear, subjective investment methods. Renaissance seek to track a niche part of public markets and simply provide investors an option of buying the largest IPOs. With that being said, we would not buy this ETF with the current holdings. If you are a long-time reader of the publication, you have probably read our commentary on companies like Snowflake, Palantir, and Coinbase.

Goods versus services

Even though inflation has seemingly peaked (this cycle), prices are not dropping for consumers. Consumers will face higher prices going forward. Even though goods inflation has dropped (energy, food, shelter, clothing, etc.), service inflation is just beginning to heat up.

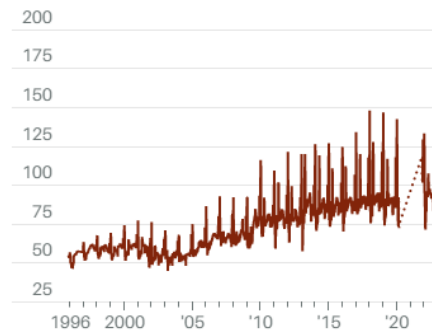
We have mentioned in previous issues of this publication that inflation will have a second spike fueled by services increase in price. After 2+ years of lockdowns and restrictions, consumers were limited to their homes and had no options for leisure, recreation, and traveling. Now that we are open, leisure

activities are advancing in price due to pent-up demand. Don't believe us? Check out the chart below that tracks Phantom of the Opera tickets on Broadway - prices have essentially spiked.



Phantom of the Opera is packing the house, despite climbing ticket prices.

\$225 avg. ticket



Note: Broadway theaters were closed almost two years because of the pandemic.
Source: Broadway World.

It's no secret, consumers want to do things and have experiences, they spent Covid-19 buying goods online. The eagerness of theater goers to pay top dollar for standing-room-only tickets means that the FED still has a long way to go to tamp down on consumer demand. Any recent NYC travelers would confirm that the city is thriving with locals and tourists. Charlotte St. Martin, president of the Broadway League credits some of this season's success to "pent-up demand" from the year and a half that Broadway was shut down.

Consumers are also chomping at the bit to return to the ocean. Revenue for major cruise lines jumped in 2022 and earnings beat expectations across the industry. Bookings have also reached a pre-pandemic high. Booking volumes in the fourth quarter were "significantly higher" than in the same period of 2019, and momentum has continued into early 2023. Even though many consumers said they would never return to a cruise ship, it appears many are choosing cruises for their vacation escapes. This has led to surging stock prices for the major cruise lines in recent months:

Market Summary > Norwegian Cruise Line Holdings Ltd

17.05 USD

+5.19 (43.76%) ↑ year to date

Feb 8, 1:41 p.m. EST • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



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Market Summary > Royal Caribbean Cruises Ltd

74.45 USD

+25.74 (52.84%) ↑ year to date

Feb 8, 1:41 p.m. EST • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



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Expect this trend to continue and expect prices for popular leisure activities to continue to surge in price. Airlines may begin to report some stellar earnings in recent quarters as they pivot away from their financial struggles during Covid-19.



Always remember, services inflation tends to respond to goods inflation because goods are used in the initial stages of the production and input process of various services, so services inflation lags goods-based inflation.

Changing world order

Over the last few years, rumblings have begun. Many believe China will overtake the United States as the world's global leader. The U.S. has arguably been the world's dominant power since WWII, succeeding Great Britain which was the world's dominant economy for close to 100 years before that. Many believe the U.S. has overstretched itself and is financially struggling as its deficits grow and debt obligations expand. It is not just the U.S., most of its allies are struggling in the same way. The major advantage the global leader has is its status as the global reserve currency.

What does that mean?

A reserve currency is a currency held by central banks in significant quantities. The United States dollar has been the world's primary reserve currency for over 60 years. Under the Bretton Woods system, the dollar was pegged to gold and most other currencies were pegged to the dollar. The debt of most countries is denoted in USD as well as most trade. Having status as the dominant reserve currency gives a country a great amount of leverage.

Today, central banks hold about 60% of their foreign exchange reserves in the USD. Many central banks and financial institutions around the world want to hold the USD and dollar-backed securities like U.S. Treasury bonds, there is strong demand for U.S. dollars. This demand allows the U.S. to borrow at lower rates. The other major benefits of being the dominant reserve currency are price stability, and high liquidity and the FED is the lender of last resort to financial institutions and other Central Banks (think times of emergency (Financial Crisis, Covid-19)). The U.S. also benefits from reserve currency status as it can extend its global reach through trade and economic sanctions. Almost all trade done in the USD, even trade among other countries, can be subject to U.S. sanctions because they are handled by so-called correspondent banks with accounts at the Federal Reserve.

Being the global dominant reserve currency comes with a few costs as well. A stronger currency makes imports less expensive and exports more expensive, which can hurt domestic industries that sell their goods in global markets. The U.S. can also be harmed by currency manipulation with other countries holding down the USD value to maintain trade surpluses. A trade surplus can force a country to let its currency appreciate, making its goods more expensive and decreasing its exports. Instead, it can keep the value of its home currency low by accumulating USD reserves. President Donald Trump accused China of this practice numerous times throughout his presidency. In September 2019, the U.S. Department of the Treasury labeled China as a currency manipulator after they devalued their Yuan

relative to the USD. China has a long history of facilitating an undervalued currency through protracted, large-scale intervention in the foreign exchange market.



So now that we have gone over reserve currencies and what they are, we can now address the reason we are writing about them this week. Many believe China could surpass the U.S. as the dominant reserve currency across the world or the world will diversify its reserve currencies from its current mix (USD makes up about 60% of global reserves currently). This will negatively impact the U.S.



However, we do not believe the Chinese Yuan will become the dominant reserve currency across the globe. Sure, central banks could diversify their holdings away from the USD but, that will not lead to the Yuan becoming the dominant currency. China has shown their government has no limits on economic and financial intervention in private enterprises. China has shown it regularly manipulates currencies; countries will simply not be held hostage by China. Things could change in the future, and we would need to adjust our thoughts but for now, we feel quite confident in our stance.

The push from many outlets across the western world along with elites across the west to anoint China as the supreme leader of the future or praise China's economy has increased in recent years.

Home > Commentary > Justin Trudeau said he admired China's dictatorship. Canadians should have believed him

Commentary News

Justin Trudeau said he admired China's dictatorship. Canadians should have believed him

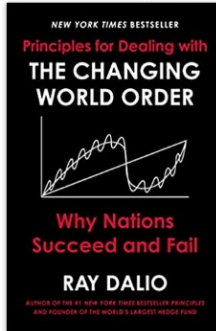
By Jon Miltimore - February 22, 2022

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The rise of China and the future world order

ULRICH MENZEL

It is a growing trend that will continue. Even Billionaire investor Ray Dalio has got in on the action. Ray Dalio founded Bridgewater & Associates; a Connecticut-based hedge fund with \$140 billion in AUM. Dalio wrote a book called "The Changing World Order" (released in 2021) – an interesting read, with some great historical explanations of financial markets and global economies but extremely complimentary of China's authoritarian state capitalist system and economy. Dalio thinks China will be the global leader and will eventually be the world's dominant reserve currency.



INTERNATIONAL - RAY DALIO

Ray Dalio thinks the U.S. needs more of China's common prosperity drive to create a 'fairer system'

BY BEI HU AND BLOOMBERG
January 10, 2022 at 11:53 PM EST

Dalio is extremely successful and a very smart person, but pushing partial communism in the U.S. on the road to American equality is rich coming from a billionaire. He is also loaded up on Chinese equities according to some recent interviews and a Chinese fund that launched in 2018.

We remind our readers to not pigeonhole themselves and read everything from numerous vantage points. There are many things we agree with Dalio across markets and in some areas where we disagree. It is important to consider everything, especially as an investor.

MacNicol & Associates Asset Management
February 10, 2023